

Message Text

UNCLASSIFIED

PAGE 01 LONDON 00242 01 OF 03 061600Z
ACTION EUR-12

INFO OCT-01 EA-12 ISO-00 PA-02 PRS-01 AID-05 CIAE-00
COME-00 EB-08 FRB-01 INR-07 NSAE-00 USIA-15
XMB-04 OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05
SS-15 STR-05 CEA-01 L-03 H-02 DOE-11 SOE-02
AGRE-00 INT-05 /131 W
-----085801 061631Z /40

R 061539Z JAN 78
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 1779
TREASURY DEPT WASHDC
INFO AMEMBASSY BONN
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO

UNCLAS SECTION 01 OF 03 LONDON 00242

USOECN ALSO FOR EMBASSY

E.O. 11652: N/A
TAGS: EFIN, UK
SUBJECT: ADDITIONAL EDITORIAL REACTION TO ANNOUNCEMENT
OF MORE ACTIVE U.S.FOREIGN EXCHANGE MARKET INTERVENTION

REF: LONDON 0195

SUMMARY: THE FINANCIAL PRESS, HAVING QUIETLY LET A DAY
PASS WITH LIMITED COMMENT ON INCREASED U.S. INTERVENTION
ACTIVITY (SEE REF), PULLED ITSELF TOGETHER TO PRODUCE
MASSIVE EDITORIAL ANALYSES. A SELECTION OF EXTRACTS FROM
THESE EDITORIALS FOLLOWS. END SUMMARY

1. THE LEAD EDITORIAL IN THE FINANCIAL TIMES OBSERVED
QUOTE: THE DECISION OF THE U.S. MONETARY AUTHORITIES TO
USE THEIR OWN RESOURCES AND THE NETWORK OF SWAP ARRANGE-
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 LONDON 00242 01 OF 03 061600Z

MENTS BETWEEN CENTRAL BANKS IN ORDER TO SUPPORT THE DOL-
LAR EXCHANGE RATE IS A COMPLETE AND WELCOME REVERSAL OF
POLICY. UNTIL NOW THEY HAVE LEFT ACTUAL INTERVENTION EN-
TIRELY TO THE MANAGERS OF THE STRONG CURRENCIES MOST AF-
FECTED BY THE WEAKNESS OF THE DOLLAR. THEY THEMSELVES
HAVE BEEN CONTENT TO ISSUE AN OCCASIONAL PUBLIC STATE-
MENT TO THE EFFECT THAT THE DOLLAR IS FUNDAMENTALLY

STRONG AND THE BEHAVIOUR OF THE FOREIGN EXCHANGE MARKETS
IRRATIONAL. ...

THE SUDDENNESS OF THIS REVERSAL ENABLED THE U.S.
AUTHORITIES TO ACHIEVE A SHARP IMMEDIATE IMPROVEMENT IN
THE DOLLAR EXCHANGE RATE. WHETHER THE EXCHANGE MARKETS
WILL NOW SETTLE DOWN, AND WHERE THEY WILL SETTLE IF THEY
DO, REMAINS TO BE SEEN. THE DOLLAR MAY WELL HAVE BEEN
OVERSOLD AND CONCERTED INTERVENTION BE ABLE TO SQUEEZE
THE BEARS, BUT THE UNCERTAINTIES WHICH HAVE LED TO THE
WEAKNESS OF THE DOLLAR REMAIN UNRESOLVED. THE PRINCIPAL
QUESTION-MARK HANGS OVER THE U.S. BALANCE OF PAYMENTS AND
THE SIZE OF ITS OIL IMPORTS. THIS IN TURN IS BOUND UP
WITH THE READINESS OF CONGRESS TO ACCEPT THE ADMINISTRA-
TION'S ENERGY-SAVING PROPOSALS, WITH WHICH ITS TAX PRO-
POSALS ARE IN TURN INVOLVED. AT BEST, THE CHANGE OF IN-
TERVENTION POLICY HAS BROUGHT A BREATHING-SPACE.END QUOTE

2. JUREK MARTIN, U.S. EDITOR FOR THE FINANCIAL TIMES
WROTE QUOTE: VERY CRUDELY PUT, THE U.S. DECISION TO
ABANDON THE "BENIGN NEGLECT" OF THE DOLLAR EXCHANGE RATE
AND TO INTERVENE IN THE FOREIGN EXCHANGE MARKETS REP-
RESENTS A VICTORY OF SORTS FOR THE FEDERAL RESERVE, THE
AMERICAN CENTRAL BANK, OVER THE U.S. TREASURY. BUT IT IS
A RESOLUTION, PERHAPS TEMPORARY, OF AN INTERNAL WASHING-
TON DISPUTE THAT SATISFIES NEITHER THE INDEPENDENT FED NOR
SENIOR MEMBERS OF THE CARTER ADMINISTRATION.
UNCLASSIFIED

UNCLASSIFIED

PAGE 03 LONDON 00242 01 OF 03 061600Z

... BOTH THE FED AND THE TREASURY, REGARDLESS OF
THEIR DIFFERENT PUBLIC EMPHASIS ON THE NEED FOR A STRONG
DOLLAR, GENERALLY AGREE ON ONE POINT -- THAT THE MARKETS
HAVE IGNORED TO AN IRRESPONSIBLE EXTENT FUNDAMENTAL
ECONOMIC REALITIES. EVEN MR. HENRY WALLICH, THE FED
GOVERNOR WHO PROFESSES STAUNCH BELIEF IN THE FREE MAR-
KET PRINCIPLE, HAS PUBLICLY BEMOANED THE "UNCERTAIN-
TIES, ERRONEOUS PERCEPTIONS AND DESTABILISING SPECULA-
TION" THAT IN RECENT MONTHS HAVE DRIVEN THE DOLLAR RE-
MORSELESSLY DOWNWARDS.

THE TROUBLE IS THAT THE MARKETS, ENGAGING IN A DIA-
LOGUE OF THE DEAF WITH THE ADMINISTRATION, HAVE ALSO CON-
CLUDED THAT WASHINGTON HAS IGNORED FUNDAMENTALS. THE
MARKETS HAVE BEEN UNIMPRESSED WITH WASHINGTON'S CON-
TENTION THAT IT HAS BEEN DOING SOMETHING ABOUT THE U.S.
DEFICITS, THE PRINCIPAL CAUSE OF THE DOLLAR'S WEAKNESS,
BY TACKLING THE PROBLEM OF OIL IMPORTS AND BY EXHORTING
OTHER COUNTRIES TO SPUR ON ECONOMIC GROWTH AND INTRO-
DUCE BETTER BALANCE IN THE GLOBAL ECONOMIC SYSTEM. END
QUOTE

3. ADRIAN DICKS FROM BONN IN THE FINANCIAL TIMES WRITES:
QUOTE: WEST GERMAN OFFICIALS HAVE REACTED TO THE SUDDEN

CHANGE OF INTERNATIONAL MONETARY STRATEGY BY THE U.S.
TREASURY AND FEDERAL RESERVE WITH THE QUIET, IF STILL
SLIGHTLY PAINED, SATISFACTION OF MEN WHO FEEL THAT THEY

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 LONDON 00242 02 OF 03 061604Z
ACTION EUR-12

INFO OCT-01 EA-12 ISO-00 PA-02 PRS-01 AID-05 CIAE-00
COME-00 EB-08 FRB-01 INR-07 NSAE-00 USIA-15
XMB-04 OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05
SS-15 STR-05 CEA-01 L-03 H-02 DOE-11 SOE-02
AGRE-00 INT-05 /131 W
-----085848 061633Z /40

R 061539Z JAN 78
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 1780
TREASURY DEPT WASHDC
INFO AMEMBASSY BONN
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO

UNCLAS SECTION 02 OF 03 LONDON 00242

HAVE BEEN RIGHT ALL ALONG, YET HAVE NOT BEEN GIVEN THEIR
DUE. ...

CONSTANT HARPING FROM BONN AND FRANKFURT HAS DOUBT-
LESS IRRITATED THE AMERICANS, BUT IT HAS BEEN NO LESS
TIREISOME FOR THE GERMANS TO BE LECTURED AT REGULAR INTER-
VALS ON THE DUTY OF THE STRONGER COUNTRIES TO "DO MORE"
FOR RECOVERY FROM THE 1974-75 INTERNATIONAL RECESSION.
FOR A START, THE GERMANS FEEL THAT IT HAS NOT YET BEEN
SUFFICIENTLY WELL UNDERSTOOD ACROSS THE ATLANTIC THAT
THE FEDERAL REPUBLIC IS NO LONGER RUNNING A MASSIVE PAY-
MENTS SURPLUS. END QUOTE

4. THE FINANCIAL EDITOR OF THE TIMES OBSERVED: QUOTE:
THE AMERICANS MOVE TO STABILIZE THE DOLLAR WAS WELL
ENOUGH RECEIVED YESTERDAY, BUT FINANCIAL MARKETS WILL NOW
BE LOOKING FOR FURTHER, MORE SUBSTANTIAL MEASURES FROM

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 LONDON 00242 02 OF 03 061604Z

PRESIDENT CARTER TO UNDERPIN WHAT IS WIDELY VIEWED AS ONLY A TENTATIVE FIRST STEP. WALL STREET, AFTER SHOWING INITIAL SCEPTICISM ON WEDNESDAY, OPENED STRONGER, THE ARGUMENT BEING THAT THE NEW INTERVENTIONIST FOREIGN EXCHANGE POLICY MARKS SUCH A CHANGE IN THINKING THAT IT IS VIRTUALLY INCONCEIVABLE IT WILL NOT BE BACKED UP BY SOMETHING MORE CONSTRUCTIVE. BUT LATER THE GAINS WERE LOST, SUGGESTING THERE IS NO UNIFORMITY OF VIEW.

THERE IS A GENERAL FEAR, HOWEVER, THAT THE DOLLAR MAY NOT HOLD UP FOR LONG WITHOUT FURTHER MEASURES. BRITAIN'S EXPERIENCE HAS LONG SINCE DEMONSTRATED THAT FOREIGN EXCHANGE MARKETS ARE NOT IMPRESSED BY DRUM-BEATING.

WHAT HAS BEEN ACHIEVED FOR THE MOMENT AT LEAST, THOUGH, IS A RESTORATION OF ORDERLINESS TO A MARKET WHICH HAD BEEN FAST APPROACHING CHAOS. END QUOTE

5. GEOFFREY BELL, A DIRECTOR OF SCHRODER WAGG, WROTE FOR THE TIMES: QUOTE: FACED WITH A DOLLAR PLUNGING HOUR BY HOUR, THE UNITED STATES ADMINISTRATION FINALLY GRASPED THE NETTLE ON WEDNESDAY AFTERNOON AND DECIDED TO INTERVENE HEAVILY IN THE FOREIGN EXCHANGE MARKETS AND TO BUY DOLLARS.

THE MARKET HAD BECOME INCREASINGLY CHAOTIC AND, SINCE THE BEGINNING OF THE YEAR, SPECULATIVE POSITIONS WERE GROWING AGAINST THE CURRENCY. THUS, THE TIMING OF THIS MOVE WAS CHOSEN WELL, IN THE SENSE THAT INSTITUTIONS THAT HAD SOLD DOLLARS SHORT RAN IMMEDIATELY FOR COVER, BUYING DOLLARS AND SO FORCING UP THE PRICE SHARPLY. ...

THE QUESTION AT ISSUE IS WHETHER CENTRAL BANK INTERVENTION WILL WORK FOR ANY LENGTH OF TIME IN STABILIZING THE DOLLAR OR WHETHER THE FACT THAT THE FEDERAL RESERVE BANK OF NEW YORK, EITHER DIRECTLY OR THROUGH OTHER CENTRAL BANKS, IS NOW A WILLING BUYER OF DOLLARS WILL

UNCLASSIFIED

UNCLASSIFIED

PAGE 03 LONDON 00242 02 OF 03 061604Z

ALLOW DOLLAR HOLDERS TO GET OUT IN A MORE FAVOURABLE PRICE.

NOTHING FUNDAMENTAL HAS CHANGED, EXCEPT THAT THERE IS A NEW BUYER OF DOLLARS IN THE MARKET. INTERESTINGLY ENOUGH, UNTIL THE LAST FEW DAYS, WHEN THE PRESSURE BECAME INTENSE, IT WAS THE FASHIONABLE VIEW IN WASHINGTON THAT INTERVENTION BY ITSELF WAS BY NO MEANS SUFFICIENT TO STABILIZE THE SITUATION. ...

INFLATION DIFFERENTIALS AND CURRENT ACCOUNT BALANCES

BETWEEN COUNTRIES OFFER ONLY A PARTIAL EXPLANATION OF THE BEHAVIOUR OF EXCHANGE RATES AND EVEN THEN ONLY OVER THE LONG RUN. GIVEN THE EXISTENCE OF SEVERAL HUNDRED BILLIONS OF DOLLARS HELD EITHER DIRECTLY IN THE UNITED STATES OR, MORE IMPORTANTLY, IN THE EURODOLLAR MARKET, SHIFTS IN CAPITAL FLOWS ARE CRITICAL. ...

QUITE CORRECTLY, AMERICA IS NOT GOING TO DEFLATE ITS ECONOMY TO REDUCE IMPORTS. THE POSSIBILITY OF CONGRESS PASSING AN ENERGY BILL WHICH WILL REALLY CUT OIL IMPORTS IS ALSO REMOTE.

AGAINST THIS BACKGROUND, THE FOREIGN EXCHANGE MARKETS CEASED TO FUNCTION NORMALLY. THE MAJOR OPERATORS IN THE MARKET ARE BANKS, WHICH ARE GENERALLY WILLING TO ADD TO DOLLAR POSITIONS WITHIN REASONABLY WIDE LIMITS AS PART OF THEIR FUNCTION IN MAKING MARKETS. ...

FORTUNATELY, THERE IS AS YET NO EVIDENCE OF REALLY MASSIVE SHIFTS OF FUNDS OUT OF THE DOLLAR, ALTHOUGH IN 1977 CENTERED BANKS OUTSIDE THE UNITED STATES BOUGHT \$30,000M IN VAIN ATTEMPTS TO KEEP THEIR OWN CURRENCIES FROM RISING.

NEVERTHELESS, CURRENCY DIVERSIFICATION HAS BEEN TAKING PLACE AND MAY EVEN GATHER MOMENTUM. PAST EXPERIENCE SHOWS, THOUGH, THAT THE PRESSURE CAN BE FAIRLY QUICKLY REVERSED AND IT IS INTERESTING TO NOTE THAT, EVEN AFTER THE INTENSE PRESSURE ON THE DOLLAR IN 1973, THERE WAS NO SIGNIFICANT LONGER-TERM TREND TOWARDS CURRENCY DIVERSIFI-

UNCLASSIFIED

UNCLASSIFIED

PAGE 04 LONDON 00242 02 OF 03 061604Z

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 LONDON 00242 03 OF 03 061607Z
ACTION EUR-12

INFO OCT-01 EA-12 ISO-00 PA-02 PRS-01 AID-05 CIAE-00
COME-00 EB-08 FRB-01 INR-07 NSAE-00 USIA-15
XMB-04 OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05
SS-15 STR-05 CEA-01 L-03 H-02 DOE-11 SOE-02
AGRE-00 INT-05 /131 W
-----085895 061634Z /40

R 061539Z JAN 78
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 1781
TREASURY DEPT WASHDC
INFO AMEMBASSY BONN
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO

UNCLAS SECTION 03 OF 03 LONDON 00242

CATION AGAINST IT. ...

HOWEVER, IF THE PRESSURE AGAINST THE DOLLAR RENEWS, GOVERNMENTS WILL HAVE TO FACE SOME HARD CHOICES. THERE IS NO LONGER THE OPTION OF RETURNING TO FIXED EXCHANGE RATES, AS THIS WOULD LEAD TO AN EXPLOSION IN COUNTRIES' MONEY SUPPLIES. ON THE OTHER HAND, EXPORT INDUSTRIES COULD WELL SUFFER, IF FLOATING MEANT RISING EXCHANGE RATES AGAINST THE DOLLAR.

THE DANGER IS THAT IF MONEY FLOWS CONTINUE TO DOMINATE EXCHANGE RATES FOR ANY SUSTAINED PERIOD OF TIME, GOVERNMENTS MAY FEEL OBLIGED TO ERECT TRADE AND CAPITAL BARRIERS TO PROTECT DOMESTIC EMPLOYMENT.

THE NEXT FEW WEEKS WILL BE CRITICAL BOTH FOR THE DOLLAR AND FOR THE SURVIVAL OF THE PRESENT SYSTEM OF FLOATING EXCHANGE RATES. BY FAR THE MOST IMPORTANT FACTOR IS WHETHER HOLDERS OF INTERNATIONAL FUNDS DECIDE
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 LONDON 00242 03 OF 03 061607Z

THAT THEY ARE HAPPY WITH THE PRESENT CURRENCY MIX OF THEIR ASSETS OR NOT.

6. JONATHAN STEELE, IN WASHINGTON, COMMENTED IN THE GUARDIAN: QUOTE: ... WEDNESDAY'S DECISION WAS NOT UNEXPECTED. IT FOLLOWED LOGICALLY FROM THE ADMINISTRATION'S STATEMENT ON DECEMBER 21, WHICH ANNOUNCED THAT THE ADMINISTRATION RECOGNISED ITS "RESPONSIBILITY TO PROTECT THE INTEGRITY OF THE DOLLAR." WHEN SPECULATORS CALLED THE BLUFF IN THAT ESSENTIALLY PSYCHOLOGICAL STATEMENT, THE ADMINISTRATION WAS BOUND TO MATCH WORDS WITH DEEDS.

ALTHOUGH ANALYSTS ARGUE THAT IRAN AND SAUDI ARABIA ARE MORE CONCERNED WITH THE ADMINISTRATION'S LONG TERM EFFORTS IN TACKLING THE CAUSE OF THE US DEFICIT, A LITTLE NUDGING FROM THE MIDDLE EAST OIL PRODUCERS MUST HAVE HELPED. THEY HAVE SEEN THE VALUE OF THEIR INDUSTRIAL IMPORTS RISE RELATIVE TO THE PRICE OF OIL, THANKS TO THE DOLLAR'S DECLINE. ONE ADMINISTRATION OFFICIAL SAID:

"THE DOLLAR WAS FALLING ON ITS FACE. IN THE SAUDIS
YOU'RE DEALING WITH SOME OF THE SHARPEST GUYS OUT OF
HARVARD.. IT WILL BE DIFFICULT TO IMAGINE THAT THEY
DIDN'T DISCUSS THE DOLLAR WITH THE PRESIDENT."

BESIDES THE FEDERAL RESERVE SYSTEM'S \$20,000 MILLIONS
SWAP NETWORK, THE TREASURY IS DIPPING INTO ITS EXCHANGE
STABILISATION FUND. THIS IS DESIGNED TO REMOVE ANY
DOUBTS THAT THE TREASURY MAY BE LESS COMMITTED THAN THE
FEDERAL RESERVE BOARD TO TAKING FIRM ACTION TO PROTECT THE
DOLLAR. THE EXCHANGE STABILISATION FUND, WHICH HAS BEEN
USED TO PROP UP THE POUND IN THE PAST, HAS NOT BEEN USED
TO SUPPORT THE DOLLAR SINCE THE 1960S. IN ORDER TO KEEP
SPECULATORS GUESSING THE TREASURY REFUSED YESTERDAY TO RE-
VEAL HOW MUCH OF THE FUND'S \$4,700 MILLIONS WOULD BE MADE
UNCLASSIFIED

UNCLASSIFIED

PAGE 03 LONDON 00242 03 OF 03 061607Z

AVAILABLE FOR CHANGING INTO WEST GERMAN MARKS. UNOFFICIAL
LY, THE FIGURE OF \$2,000 MILLIONS WAS BEING MENTIONED
YESTERDAY.

BREWSTER

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FOREIGN MARKETS, MARKETS, INTERVENTION, FOREIGN EXCHANGE
Control Number: n/a
Copy: SINGLE
Draft Date: 06 jan 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 jan 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978LONDON00242
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780010-0968
Format: TEL
From: LONDON USOECD
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780192/aaaaczuu.tel
Line Count: 357
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 1a9701e6-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 7
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 78 LONDON 195
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 04 feb 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3818767
Secure: OPEN
Status: NATIVE
Subject: ADDITIONAL EDITORIAL REACTION TO ANNOUNCEMENT OF MORE ACTIVE U.S.FOREIGN EXCHANGE MARKET INTERVENTION
TAGS: EFIN, UK
To: STATE TRSY
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/1a9701e6-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014